



# Implementing GASB 45

Karen Ribble, Associate Director

CDIAC's Pre-Conference Revealing OPEB's in Your Financials

Monday, September 25, 2006



**Defined benefit plan: codification of long-term wishful thinking by management and labor. Labor leaders take credit for all these benefits for “however long they shall live” and management endorses the fantasy that the company will have the resources to pay for them.**



## Implementing GASB 45

**You receive your actuarial study and have “the numbers”... what do you do now?**

- > Consider your options**
  - Continue status quo
  - Fully pre-fund (i.e. fund the Annual Required Contribution ARC)
  - Control future exposure
  - Some combination of the above



## Implementing GASB 45

- > Prepare elected officials and public for budget impact
  - Example: put together a committee to develop recommendations on how to fund the actuarial liability
- > Determine funding plan (immediate and long term basis)
- > Begin administrative process of setting up fund
- > Disclose all of the above and why!



# Implementing GASB 45

## Getting the most from your actuarial study

- > Use sensitivity analyses (discount rate, healthcare inflation, participation rate)
  - Funding Unfunded Accrued Actuarial Liability (UAAL)
    - > what rate of amortization is financially achievable and politically acceptable?
  - Benefits plan – are there changes to the plan that are negotiable?
  - Know the impact of modifications to assumptions, funding rate and benefits provided



## Fitch's approach

- > We acknowledge tension between allocation of scarce resources for governmental services today and funding future obligations
  - Have educated and measured reaction – understanding that UAAL is based on assumptions and subject to fluctuations
  - Continue to articulate views through special reports
  - Focus on credit implications for investors
    - > i.e. not addressing public policy, employees' or taxpayers' interests



## Credit implications

- > Focus will be on annual obligation as much as if not more than total UAAL
  - Note that issuers choosing to ramp up annual contributions toward the actuarially determined levels will accrue a net OPEB obligation, but nonetheless are making progress
- > Evaluate ability to manage exposure by limiting its growth
  - Changing benefits or pre-funding (ie. funding the UAAL)



## Credit implications

- > Management's willingness and ability to address issue can be as important as the UAAL itself
  - Conversely, failure to take action could have negative credit implications
  - Long-term deferral of such OPEB obligations is a sign of fiscal stress that will be reflected in ratings





## **Fitch's expectations of Implementation of GASB 45**

- > Many governments will begin pre-funding ARC to actuarially determined levels, altering benefit plans and/or taking other actions to ensure long-term plan solvency
- > Long term, Fitch expects meeting actuarial funding requirements for OPEB to be a stabilizing factor and protective of credit



## Summary: Dos and Don'ts

- > Do comply with GASB 45
- > Do begin working with stakeholders in implementing a funding plan
- > Do disclose and be prepared to discuss OPEB liability and plan prior to GASB 45 reporting is required
- > Don't ignore the issue
- > Don't use aggressive assumptions in your actuarial study
- > Don't assume that it is not your problem (i.e. it's the pension board's issue)



**Fitch Ratings**

*www.fitchratings.com*

**New York**

One State Street Plaza  
New York, NY 10004  
+1 212 908 0500  
+1 800 75 FITCH

**London**

Eldon House  
2 Eldon Street  
London EC2M 7UA  
UK  
+44 207 417 4222

**Singapore**

7 Temasek Blvd.  
Singapore 038987  
+65 6336 6801